

## SENATE FISCAL AGENCY MEMORANDUM

**DATE:** August 21, 2003

**TO:** Members of the Senate

**FROM:** Gary S. Olson, Director

**RE:** Update on FY 2002-03 and FY 2003-04 State Budget

Governor Granholm has now signed into law all of the appropriation bills passed by the Legislature in July 2003. Still pending in the Legislature are the remaining appropriations for the FY 2003-04 Capital Outlay budget. The recently enacted supplemental appropriation bill (Public Act 173 of 2003) contained a portion of the State Building Authority debt service payments recommended for the annual Capital Outlay appropriation bill which has not yet been fully enacted. This memorandum provides an update on the FY 2002-03 and FY 2003-04 year-end balances in both the General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) budgets.

### General Fund/General Purpose Year-End Balances

Table 1 provides the details of the Senate Fiscal Agency (SFA) estimate of a \$360.6 million projected year-end balance in the FY 2002-03 GF/GP budget. This estimate is based on the May 2003 consensus revenue estimate, enacted revenue adjustments, enacted appropriations and a projected \$20.0 million GF/GP year-end appropriation lapse. Pursuant to provisions of the Management and Budget Act, the entire amount of the FY 2002-03 GF/GP year-end balance will carry-forward and be available to support FY 2003-04 GF/GP appropriations.

On the revenue side of the FY 2002-03 GF/GP budget ledger, the SFA is now estimating that revenues will total \$9.17 billion. This revenue total consists of a \$114.5 million beginning balance carried forward from FY 2001-02, \$8.08 billion of ongoing revenues estimated at the May 2003 consensus revenue estimating conference and a total of \$969.3 million of non-ongoing revenues not included in the consensus revenue estimate. These non-ongoing revenues result from a variety of sources including lawsuit settlements, transfers from State restricted revenue accounts, a withdrawal from the Budget Stabilization Fund, unrestricted Federal aid and funds from the elimination of a statutory reserve used to pay revenue sharing payments. The current FY 2002-03 GF/GP consensus revenue estimate of \$8.08 billion represents a \$343.2 million or 4.1% decline from the final level of FY 2001-02 ongoing GF/GP revenue collections.

On the expenditure side of the FY 2002-03 GF/GP budget ledger, year-to-date appropriations total \$8.83 billion. This current level of GF/GP appropriations results from the combination of the initial appropriations for the fiscal year, six enacted supplemental appropriation bills and two Executive Orders reducing enacted appropriations. The SFA is currently projecting that \$20.0 million of the enacted appropriations will not be expended at the close of the fiscal year and will lapse back to the General Fund. The \$8.83 billion of FY 2002-03 GF/GP appropriations represents a \$362.2 million or 3.9% decline from the final level of FY 2001-02 enacted GF/GP appropriations.

**Table 1**

<b>FY 2002-03 General Fund/General Purpose Revenues, Expenditures and Year-End Balance (millions of dollars)</b>	
	<b>SFA Estimate</b>
<b>Revenues:</b>	
Beginning Balance .....	\$ 114.5
On-Going Revenue Estimate .....	8,083.8
<b>Non-Ongoing Revenue Adjustments:</b>	
Merit Award Trust Fund Transfer .....	151.3
Tobacco Settlement Trust Fund Transfer .....	14.6
Revenue Sharing Reductions .....	146.2
Liquor Purchase Revolving Fund-Fire Protection Grant Reduction .....	3.7
Transfer Waterways Fund to General Fund (PA 746 of 2002) .....	7.8
Transfer Pre-Funded Health Reserve to General Fund (PA 743 of 2002) .....	58.2
Hospital Assessment Revenue (PA 562 of 2002) .....	8.9
Sale of Surplus State Property-Northville .....	69.5
Investor Lawsuit Settlement .....	14.3
Vitamin Lawsuit Settlement .....	10.1
Tobacco Company Lawsuit Settlement .....	7.0
Revenue Sharing Reserve Account .....	195.6
Unrestricted Federal Aid .....	169.0
Federal Tax Reform State Revenue Impact .....	(7.1)
Federal Unemployment Benefit Extension .....	5.1
Budget Stabilization Fund Withdrawal (PA 504 of 2002) .....	115.1
Total Non-ongoing Revenue Adjustments .....	969.3
<b>Total Estimated Revenues</b> .....	<b>\$9,167.6</b>
<b>Expenditures:</b>	
Original Enacted Appropriations .....	\$9,196.7
<b>Supplemental Appropriations:</b>	
Capital Outlay (PA 530 & PA 560 of 2002) .....	(0.2)
Supplemental Appropriations (PA 746 of 2002) .....	(43.9)
Supplemental Appropriations (PA 39 of 2003) .....	(7.8)
Supplemental Appropriations (PA 173 of 2003) .....	(13.3)
School Aid Supplemental Appropriations (PA 158 of 2003) .....	51.0
Executive Order 2002-22, GF/GP Spending Cuts .....	(227.2)
Executive Order 2002-22, Work Project Lapses .....	(2.8)
Executive Order 2003-3 .....	(125.5)
Projected Appropriation Lapses .....	(20.0)
<b>Total Estimated Expenditures</b> .....	<b>\$8,807.0</b>
<b>Projected Year-End Balance</b> .....	<b>\$ 360.6</b>

Table 2 provides the details of the SFA estimate of a \$146.2 million year-end balance in the FY 2003-04 GF/GP budget. Pursuant to provisions contained in the enacted appropriation bills, \$73.1 million of this projected year-end balance will be deposited into the Budget Stabilization Fund and an additional \$73.1 million will be deposited into the newly created School Aid Stabilization Fund. The language provides that these two transfers will not occur unless the final FY 2002-03 GF/GP year-end balance exceeds \$350.0 million. Any FY 2003-04 GF/GP year-end balance above the amount of these two transfers will carry forward into FY 2004-05.

**Table 2**

<b>FY 2003-04 General Fund/General Purpose Revenues, Expenditures and Year-End Balance (millions of dollars)</b>	
	<b>SFA Estimate</b>
<b>Revenues:</b>	
Beginning Balance .....	\$ 360.6
Ongoing Revenue Estimate .....	8,158.7
<b>Other Revenue Adjustments:</b>	
Transfer from Employment Security Fund (PA 84 of 2003) .....	10.0
Revenue Sharing Reductions (PA 168 of 2003) .....	245.4
Tax Policy Changes .....	12.1
Sale of Property (Detroit Plaza Building) .....	2.0
Transfer from Comprehensive Transportation Fund (PA 139 of 2003) .	10.8
Unrestricted Federal Aid .....	169.0
Federal Tax Reform State Revenue Impact .....	(34.5)
Federal Unemployment Benefits (Income Tax Revenues) .....	8.0
Bad Driver Fee Legislation (PA 165 of 2003) .....	65.0
Drivers License Fee Legislation (PA 152 of 2003) .....	25.9
Total Other Revenue Adjustments .....	513.7
<b>Total Estimated Revenues</b> .....	<b>\$9,033.0</b>
<b>Expenditures:</b>	
Enacted Appropriations .....	8,655.2
Pending Capital Outlay Appropriations .....	231.6
Projected Appropriation Lapses .....	0.0
<b>Total Estimated Expenditures</b> .....	<b>\$8,886.8</b>
<b>Projected Year-End Balance</b> .....	<b>\$ 146.2</b>
<b>Distribution of Year-End Balance:</b>	
Budget Stabilization Fund .....	73.1
School Aid Stabilization Fund .....	73.1
<b>Remaining Year-End Balance</b>	<b>\$ 0.0</b>

On the revenue side of the FY 2003-04 GF/GP budget ledger, the SFA is now estimating that final revenues will total \$9.03 billion. This revenue total consists of a \$360.6 million beginning balance carried forward from FY 2002-03, \$8.16 billion of ongoing revenues estimated at the May 2003 consensus revenue estimating conference and a total of \$513.7 million of revenue adjustments not included in the consensus revenue estimate. These revenue adjustments result from a variety of sources including unrestricted Federal aid, new GF/GP revenues resulting from fee increases on drivers' licenses and bad drivers, reductions from the statutory level of revenue sharing payments and other transfers from State restricted revenue accounts. The current FY 2003-04 GF/GP consensus revenue estimate of \$8.16 billion represents a \$74.9 million or a 0.9% increase over the current estimated level of FY 2002-03 ongoing GF/GP revenue collections.

On the expenditure side of the FY 2003-04 GF/GP budget ledger, appropriations approved by the Legislature and signed into law by the Governor total \$8.65 billion. Governor Granholm did veto \$18.0 million of Adjusted Gross appropriations and \$3.2 million of GF/GP appropriations approved by the Legislature. Table 3 provides a summary of these line-item vetoes by the Governor. Still pending before the Legislature is the majority of the funding for the FY 2003-04 Capital Outlay

budget. The enacted appropriations include \$49.7 million of GF/GP funding for the Capital Outlay budget. It is expected that the Legislature will approve additional GF/GP appropriations of \$231.6 million for the Capital Outlay budget when they return in session in September. Using this assumption the initial level of FY 2003-04 GF/GP appropriations will total \$8.89 billion. The \$8.89 billion of FY 2003-04 GF/GP appropriations represents a \$59.8 million or a 0.7% increase from the current level of FY 2002-03 GF/GP appropriations.

**Table 3**

FY 2003-04 State Budget Line-Item Vetoes (actual dollars)		
Department/Item	Adjusted Gross	General Fund/ General Purpose
<b>Agriculture</b>		
Southwestern Michigan Tourist Council . . . . .	\$(15,000)	\$(15,000)
Northwest Michigan Horticultural Research Station . . . . .	(10,000)	(10,000)
<b>Community Health</b>		
Bioterrorism Preparedness . . . . .	(1,000,000)	0
Auxiliary Medical Services . . . . .	(6,801,200)	(3,000,000)
<b>Environmental Quality</b>		
St. Clair Watershed Water Quality Monitoring . . . . .	(1,000,000)	0
Public Beach Signs . . . . .	(20,000)	0
<b>Family Independence Agency</b>		
Fatherhood Initiative . . . . .	(500,000)	0
Marriage Initiative . . . . .	(750,000)	0
Individual Development Accounts . . . . .	(200,000)	0
Welfare to Career Grants . . . . .	(40,000)	0
<b>Higher Education</b>		
Midwestern Higher Education Compact . . . . .	(82,500)	(82,500)
<b>Natural Resources</b>		
Big Rapids River Walk Project . . . . .	(22,100)	(22,100)
Sebewaing Harbor Commission Flood Control Grant . . . . .	(50,000)	0
Bennett Arboretum . . . . .	(20,000)	0
<b>School Aid</b>		
Detroit Public Schools Grant . . . . .	15,000,000	0
Center for Educational Performance and Information . . . . .	3,062,700	0
Tax Tribunal Reimbursement for Montabella Schools . . . . .	(120,000)	0
Grand Valley State University Grant . . . . .	(50,000)	(50,000)
<b>Transportation</b>		
Local Federal Bridge Funding Earmark . . . . .	(23,500,000)	0
Specific Transportation Road Projects . . . . .	(1,825,000)	0
Ferry Boat Subsidy for School Bus Transport . . . . .	(20,000)	0
<b>Total Line-Item Vetoes . . . . .</b>	<b>\$(17,963,100)</b>	<b>\$(3,179,600)</b>

## School Aid Fund Year-End Balances

Table 4 provides the details of the SFA estimate of a \$1.3 million year-end balance in the FY 2002-03 SAF budget. This estimate is based on the May 2003 consensus revenue estimate, enacted revenue adjustments, enacted appropriations and a projected \$51.6 million year-end appropriation lapse. Pursuant to provisions of the State School Aid Act, the entire amount of the FY 2002-03 SAF year-end balance will carry forward and be available to support FY 2003-04 SAF appropriations.

<b>Table 4</b> <b>FY 2002-03</b> <b>School Aid Fund</b> <b>Revenues, Expenditures and Year-End Balance</b> <b>(millions of dollars)</b>	
	<b>SFA Estimate</b>
<b>Revenues:</b>	
Beginning Balance .....	\$ 237.0
Ongoing Revenue Estimate .....	10,311.0
<b>Non-ongoing Revenue Adjustments:</b>	
State Property Tax Collection Date Change .....	454.7
Federal Tax Reform State Revenue Impact .....	(1.1)
Budget Stabilization Fund (Durant) .....	32.0
Total Non-ongoing Revenue Adjustments .....	485.6
<b>Other Revenue Sources:</b>	
General Fund/General Purpose Grant (PA 121 of 2001) .....	198.4
General Fund/General Purpose Grant (PA 158 of 2003) .....	51.0
Federal Unemployment Benefits (Income Tax Revenue) .....	0.9
Local Revenues .....	0.7
Federal Aid .....	1,219.8
Total Other Revenue Sources .....	1,470.8
<b>Total Estimated Revenues .....</b>	<b>\$12,504.4</b>
<b>Expenditures:</b>	
Enacted Appropriations (PA 121 of 2001) .....	\$ 8,128.4
Supplemental Appropriations (PA 191 of 2002) .....	4,563.5
Supplemental Appropriations (PA 521 of 2002) .....	18.5
Supplemental Appropriations (PA 158 of 2003) .....	(28.7)
Pro-Rata Reduction (February 2003) .....	(127.0)
Projected Appropriation Lapses .....	(51.6)
<b>Total Estimated Expenditures .....</b>	<b>\$12,503.1</b>
<b>Projected Year-End Balance .....</b>	<b>\$ 1.3</b>

On the revenue side of the FY 2002-03 SAF budget ledger, the SFA is now estimating that revenues will total \$12.5 billion. This revenue total consists of a \$237.0 million beginning balance carried forward from FY 2001-02, \$10.31 billion of ongoing revenues estimated at the May 2003 consensus revenue estimating conference, \$249.4 million of GF/GP revenues appropriated to the SAF, \$1.22 billion of Federal aid, a \$32.0 million transfer from the Budget Stabilization Fund, \$454.7 million of one-time revenues from a change in the collection date of the State Education Property tax and \$0.5 million from other minor funding adjustments. The current FY 2002-03 SAF consensus revenue estimate of \$10.31 billion represents a \$205.7 million or 2.0% increase from the final level of FY 2001-02 ongoing SAF revenue collections.

On the expenditure side of the FY 2002-03 SAF budget ledger, the SFA is now estimating that SAF expenditures will total \$12.5 billion. This expenditure level results from the combination of initial appropriations for the fiscal year, three enacted supplemental appropriation bills, a pro-rata reduction in SAF appropriations and a projected \$51.6 million year-end appropriation lapse. Excluding Federal aid, the \$11.28 billion of FY 2002-03 SAF expenditures represents a \$96.3 million or 0.9% increase over the final level of non Federal FY 2001-02 SAF expenditures.

Table 5 provides the details of the SFA estimate of a \$16.4 million deficit in the FY 2003-04 SAF budget. This estimate is based on the May 2003 consensus revenue estimate, enacted revenue adjustments and enacted appropriations. The deficit results from the fact that the Governor, through her constitutional line-item veto authority, vetoed two SAF appropriation reductions approved by the Legislature. These vetoes placed a balanced SAF budget approved by the Legislature into a slight deficit position. The Governor, through statutory authority proved in the State School Aid Act, does have the authority to recommend a pro-rata reduction in nonconstitutionally guaranteed SAF appropriations to eliminate this projected \$16.4 million deficit. At this point in time it is not anticipated that the Governor will trigger a pro-rata reduction in SAF appropriations to eliminate the deficit. The SFA assumes that this slight deficit will be dealt with after the consensus revenue estimate is adjusted in January 2004.

<b>Table 5</b> <b>FY 2003-04</b> <b>School Aid Fund</b> <b>Revenues, Expenditures and Year-End Balance</b> <b>(millions of dollars)</b>	
	<b>SFA Estimate</b>
<b>Revenues:</b>	
Beginning Balance .....	\$ 1.3
Ongoing Revenue Estimate .....	10,749.0
<b>Non-ongoing Revenue Adjustments:</b>	
Personal Property Tax Audits .....	8.5
School Bond Loan Refinancing .....	128.3
Total Non-ongoing Revenue Adjustments .....	136.8
<b>Other Revenue Sources:</b>	
General Fund/General Purpose Grant .....	282.1
Federal Tax Reform State Revenue Impact .....	(5.4)
Federal Unemployment Benefits (Income Tax Revenues) .....	2.1
State Lottery Changes .....	50.0
Tax Policy Changes .....	4.4
Federal Aid .....	1,316.7
Total Other Revenue Sources .....	1,649.9
<b>Total Estimated Revenue .....</b>	<b>\$12,537.0</b>
<b>Expenditures:</b>	
Enacted Appropriation (PA 521 of 2002) .....	\$12,696.9
Supplemental Appropriations (PA 158 of 2003) .....	(92.8)
Homestead Exemption Audit (PA 105 of 2003) .....	(50.7)
Projected Appropriation Lapses .....	0.0
<b>Total Estimated Expenditures .....</b>	<b>\$12,553.4</b>
<b>Projected Year-End Balance .....</b>	<b>\$ (16.4)</b>

On the revenue side of the FY 2003-04 SAF budget ledger, the SFA is now estimating that revenues will total \$12.54 billion. This revenue total consists of a \$1.3 million beginning balance carried forward from FY 2002-03, \$10.75 billion of ongoing revenues estimated at the May 2003 consensus revenue estimating conference, \$282.1 million of GF/GP revenues appropriated to the SAF, \$1.32 billion of Federal aid, \$128.3 million of one-time revenues from the refinancing of existing loans to school districts through the State School Bond Loan Fund, \$50.0 million from new State Lottery games and \$9.6 million from other revenue adjustments. The current FY 2003-04 SAF consensus revenue estimate of \$10.75 billion represents a \$438.0 million or 4.2% increase over the current estimated level of FY 2002-03 ongoing SAF revenue collections.

On the expenditure side of the FY 2003-04 SAF budget ledger, the SFA is now estimating that SAF expenditures will total \$12.55 billion. This expenditure level results from the combination of the initial appropriations for the fiscal year, a supplemental appropriation bill and expenditure savings resulting from a statutory change that increases audits of homestead property tax exemptions. Excluding Federal aid, the \$11.24 billion of FY 2003-04 SAF expenditures represents a \$46.6 million or 0.4% decrease over the current level of non Federal FY 2002-03 SAF expenditures.

These SFA estimates of the FY 2002-03 and FY 2003-04 year-end balances in the GF/GP and SAF budgets will not change until the consensus revenue estimates are reevaluated and adjusted at the next regularly scheduled meeting of the consensus revenue estimating conference to be held in January 2004. If you have any questions on this information please call my office at 373-5300.

/kjh